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SIPDIS
SENSITIVE

STATE FOR WHA/CAR (ACADIEUX) (VDEPIRRO) (WSMITH)
WHA/EPSC (MROONEY)(FCORNEILLE)
EEB/ESC/IEC/EPC (MMcMANUS)
SANTO DOMINGO FOR FCS AND FAS
TREASURY FOR ERIN NEPHEW

E.O. 12958: N/A
TAGS: [ENRG](#) [EAIR](#) [EINV](#) [ECON](#) [ETRD](#) [KCOR](#) [KIPR](#) [IADB](#) [IBRD](#) [IMF](#)
TRSY, XL, JM
SUBJECT: JAMAICA: DECEMBER ECONOMIC REVIEW - SEVERE HARDSHIP

REF: A) KINGSTON 1086
B) KINGSTI 1058
C) KINGSTON 1016
D) KINGSTON 703

11. (SBU) SUMMARY:

-- Billionaire Jamaican born investor Michael Lee Chin says GOJ must get rid of Air Jamaica and create a new vision for economic growth.

-- Jamaica Public Service company is seeing an increase in electricity pilfering, as thieves thwart its anti-theft measures.

-- The Bank of Jamaica (BOJ) announced that non-performing loans are nearing USD 112.5 million, growing 47.7 percent over last year for the September quarter.

-- The Jamaican dollar (JMD) has slid 10 percent against the U.S. Dollar in the last 8 weeks.

-- Finance Minister says the Government of Jamaica (GOJ) must exercise strict fiscal controls given the limitation of global financing, but he expects total inflows of approximately USD 950 million, mostly from multilateral institutions, by the end the fiscal year.

-- Prime Minister (PM) Bruce Golding's announced fiscal stimulus could deny the country USD 108 million in lost tax revenue.

-- Since the start of the year, 11 employees from GOJ agencies have been charged with corruption-related crimes.

-- The global economic downturn is threatening Jamaica's bauxite industry, as world prices for aluminum have declined nearly 47 percent, causing the economic situation to look bleak.

Aviation - Air Jamaica

11. (SBU) Michael Lee Chin, Jamaican-born billionaire and head of Canadian mutual fund company AIC, said Jamaica needs a new economic vision, one that embarks on a transformational approach instead of a its current linear incremental approach, to bolster the economy (reftel A). Speaking with Caribbean Business Report on December 11, he said the GOJ must get rid of Air Jamaica, which lost over USD 170 million in 2007 and is expected to surpass that figure in 2008. He called the national carrier an "unnecessary burden on the public purse and suggested that the government should either divest or dismantle it." He added, "As a businessman I would never invest in it because you don't control your biggest expense variable, which is the price of oil. Also, during a recession people stop traveling so

the airplanes are parked. It is the worst possible business for a private investor let alone a government which doesn't have the capabilities to manage an airline." He went on to say, "We shouldn't be in that business because it is costing us too much. We have two choices as far as Air Jamaica is concerned: we sell it or dismantle it. Now by selling it, I don't see anyone paying us handsomely for it because no one wants to take on its debts."

Energy - Theft on the Rise

12. (SBU) The Jamaica Public Service Company (JPS) is reporting electricity theft is on the rise. JPS established a new system of running metal casing covers over the wires to make it more difficult to illegally tap into electricity lines. The firm said thieves have discovered a way to tap into the lines by melting the exterior casing. Under the current tariff, the Office of Utilities Regulation (OUR) permits JPS to recover 15.8 percent of total electricity losses through customer charges.

13. (SBU) JPS is losing 22.7 percent of the electricity it produces -- 10 percent from technical losses and 12.7 percent from theft. The 6.9 percent balance converts to losses of USD 17.25 million per year. COMMENT: JPS has come under public fire in recent months for sharply raising electricity rates without adequately explaining the justifications for the increase. Its major anti-stealing public relations campaign entitled "How Come?" meant to send the message to the public that "if stealing is always wrong, how come you steal electricity," has backfired as protesters showed up outside JPS offices with placards reading "How Come?" in response to JPS failing to justify the price hike. END COMMENT.

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Finance - Non Performing Loans Rise

14. (SBU) The BOJ announced that non-performing loans are nearing USD 112.5 million, growing 47.7 percent over last year for the September quarter. Commercial banks were hit hardest with about USD 72 million, mortgages accounted for 33.5 million and smaller merchant banks and credit union type entities had USD 7 million. The rise in non-performing loans is likely linked to the collapse of several alternative investment schemes earlier in the year (reftels). Participants in the schemes used anticipated profits to take out loans on houses and expensive cars; now that payments from the schemes have ceased and deposits have been lost, individuals are finding it difficult to make loan payments. Reduced spending as result of the global economic crisis and demise of the schemes is likely to exacerbate worsening economic conditions on the island.

Finance - JMD Slides 10 percent

15. (U) On December 16, the spot rate for the JMD reached 80.15 against the USD, and might have declined further if the BOJ had begun selling currency to its primary dealers for resale to end users at that price. The GOJ intervened again on December 18 after the JMD slipped to 80.18 against the dollar. The JMD has depreciated by more than 10 percent since mid-October due to the global economic crisis and worsening economic conditions in Jamaica.

Fiscal Prudence...No...I Mean Stimulus

16. (SBU) Finance Minister Audley Shaw said in a public forum on December 4 that the GOJ must maintain strict fiscal prudence, given the global economic crisis that has led to a credit crunch in the international markets. He added, "given the limitation on global financing, it is important for us to strive to maintain our deficit target, and despite the pressures for additional expenditure to meet hurricane damage and public sector wage adjustments, we will continue to exercise strict fiscal controls." In a reversal on December 14, PM Golding announced a tax reduction stimulus package (reftel B) that could cost the GOJ approximately USD 108 million in

lost revenue. COMMENT: although the country probably needed some form of stimulus, given the worsening economic conditions the lost revenue will have a negative impact on the country's fiscal accounts. END COMMENT.

Anti-Corruption

17. (SBU) Since the start of the year, 11 employees from Inland Revenue, Customs, and the Stamp Duty and Transfer Tax Division of the Taxpayer Audit and Assessment Departments have faced criminal charges. The employees were caught in an internal dragnet designed to root out corruption within the Tax Administration Department. They are facing a range of charges including falsification of an account; conspiracy to deceive; breach of the corruption prevention act and cheating the public revenue. COMMENT: The true test of anti-corruption measures will be if cases go to trial and convictions are secured. There also has been a general reluctance to target higher level GOJ officials who are suspected of corruption. END COMMENT.

Mining/Bauxite

18. (U) The global economic downturn is threatening the short-term survival of Jamaica's bauxite industry. The decline in manufacturing has weakened world demand for aluminum as prices on the London Metal Exchange fell from a high earlier this year of USD 3,200 per ton to just over USD 1,700 per ton. Bauxite is still one of Jamaica's major earners of foreign exchange, and the sector fears additional price declines could possibly lead to plant closures. Chairman of the Jamaica Bauxite Institute Dr. Carlton Davis told the press on December 2 that, "One cannot rule out the possibility of closure." Andrew Currie, Acting Manager of West Indies Alumina Company announced on December 16 that his firm will lay off 150 employees.

19. (SBU) Weakening demand from the construction and automobile industries is pushing prices lower. A second challenge to the sector has emerged as the price of caustic soda, a key material used in the processing of alumina, has tripled in recent months, driving up production costs. COMMENT: With the tourism sector already taking a hit from the global economic downturn, a decline in the Bauxite

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sector is worrying. Jamaica relies on tourism (20 percent of GDP), bauxite (7 percent of GDP) and remittances (20 percent of GDP) for close to half its GDP; with all three sectors trending downward, the country faces severe economic hardships. END COMMENT

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